BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2019-6-G

IN RE:	Application of Dominion Energy South Carolina, Incorporate (f/k/a South Carolina Electric & Gas Company) to Have the Terms of the Natural Gas Rate Stabilization Act Apply to the Company's Rates and Charges for Gas Distribution Services	))))))	**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF'S REPLY TO DOMINION ENERGY SOUTH CAROLINAS, INC.'S RESPONSE**

On August 30, 2019, the South Carolina Office of Regulatory Staff ("ORS") filed with the Public Service Commission of South Carolina ("Commission") the Review of Dominion Energy South Carolina Inc.'s ("DESC") Gas Rate Stabilization Act Monitoring Report (the "Report"). On September 13, 2019, DESC filed with the Commission a response to the Report ("Response"). ORS respectfully files this Reply.[1]

In its Application DESC asserted it was entitled to a revenue increase of $7,106,649; when applying the provisions of the Rate Stabilization Act ("RSA"), ORS's recommended adjustments, and using a return on equity of 10.25%, the adjusted revenue increase for DESC totals $6,273,054. In its Response, DESC incorrectly states that "ORS recommends that the Commission authorize an increase in DESC's gas revenue of $6,273,054." ORS makes no such recommendation. DESC's Response specifically contests three (3) adjustments that ORS proposed: disallowances related to economic development expenses; adjustment to employee incentive pay; and adjustment to base pay and benefits paid to four (4) DESC executives. These three adjustments, which are addressed below, total a disallowance of $601,456.[2]

[1]This Reply does not address each point made in DESC's Response and ORS files this Reply without waiving any arguments.
[2] *See* S.C. Code Ann. § 58-5-430(1)-(4).

1. Adjustment to Development Grants and Sponsorships[3]

ORS proposed an adjustment to DESC's economic development grants and sponsorships in the amount of $34,501 because, in part, the costs of certain sponsorships and grants to non-profit organizations do not directly relate to the provision of safe and reliable gas operations or increase total system sales and customers. ORS does not oppose DESC recovering $316,903 in Business Development expenses.[4]

In response to ORS discovery, DESC provided ORS with the figures it highlighted in its Response. It has been the historical practice of this Commission to exclude from recovery those costs that do not directly relate to the provision of safe and reliable utility service. Additionally, DESC makes no specific commitments as to how the $34,501 would benefit DESC's customers, nor how many jobs would be created. ORS's recommendation is based upon the information provided by DESC and respectfully requests this Commission affirm ORS's recommendation to disallow $34,501 in economic development grants and sponsorships sought for recovery by DESC.

2. Employee Incentive Pay

ORS recommended an adjustment of $237,172 to remove the portion of Long-Term Incentives ("LTI") and Short-Term Incentives ("STI") for all employees allocated to South Carolina natural gas operations for the Company's Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") goals.

In the past, DESC has proposed, and the Commission approved,[5] removal of 50% of employee bonuses, including any bonuses accrued above 100% if applicable, 50% of STI, including any STI accrued above 100% if applicable, 50% of officer LTI, and associated payroll taxes. Additionally, in

[3]DESC's Response labeled this adjustment "Disallowance Related to Economic Development." The ORS Report labels it as "Development Grants and Sponsorships."
[4] Business Development expenses include expenses on which the Company provided additional detail to demonstrate how the Business Development expenses contributed to an increase in customers and sales.
[5]The proposed adjustment was embedded in DESC's Monitoring Reports, final Commission approved revenue adjustments, and included in work papers but not explicitly identified in Commission orders.

previous RSA filings, DESC's proposal was not limited to incentives, but included employee bonuses and was not tied to EPS but included 50% (plus any bonuses or STI accrued above 100%) removal of bonuses and incentives included during the review period, along with associated payroll taxes. DESC's proposal in this RSA filing is inconsistent with previous proposals and subsequent Commission orders.

In Docket No. 2019-6-G, DESC's Monitoring Report did not contain an adjustment for removal of employee bonuses, STI and officer LTI. Absent the previously included adjustment, ORS proposed an equitable adjustment to remove the portion of LTI and STI for all employees allocated to South Carolina natural gas operations attributed to EPS and TSR.

While ORS's recommendation for employee incentive pay is reasonable, should the Commission prefer to include the adjustment previously proposed by DESC and permitted by the Commission, ORS requests DESC perform the calculation to remove employee bonuses, STI and officer LTI. The calculation and all necessary data should be provided to the Commission and ORS to allow for verification of DESC's calculation.

3. Removal of Fifty Percent of the Base Pay and Benefits for Four Highest Executives Allocated to DESC's South Carolina Gas Operations

ORS recommended that 50% of the base pay and benefits paid to the Company's four (4) highest compensated executives allocated to the Company's South Carolina natural gas operations be removed. While ORS asserts its recommendation is reasonable, ORS would have no objections to a Commission finding that DESC may recover only those costs that have historically been allowed for recovery in previous RSAs.

In its Report, ORS noted that DESC capitalizes a portion of employee incentives and associated taxes for work related to plant-in-service and requested that, in future RSA filings, DESC identify and provide the capitalized incentives and associated taxes included in plant-in-service, accumulated depreciation, and depreciation expense. In its Response, DESC stated that the provision of this data is not feasible. ORS points out that in a recent Settlement Agreement, Piedmont Natural Gas, Inc.

("PNG") agreed to provide this data to ORS and ORS would re-affirm its request that the Commission require that of DESC.[6]

Conclusion

While ORS's recommendations are reasonable and comply with the RSA, it recognizes the merit in the application of the previous approach utilized by the Commission to evaluate expenses that DESC may recover. ORS respectfully requests the Commission affirm ORS's recommended adjustments or, in the alternative, issue an order requiring DESC to adjust the Monitoring Reports to include the previous adjustments permitted or ordered by the Commission.

Finally, ORS would note that it has been 15 years since DESC elected to have the RSA apply to its rates and charges. ORS recommends the financial baseline metrics that were adopted by the Commission in Order No. 2005-619 be reviewed and adjusted to ensure the RSA benefits both DESC and the customer.

Respectfully submitted,

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[6]*See* Settlement Agreement filed in Docket No. 2019-7-G on September 12, 2019, which stated "[c]oncurrent with [PNG's] future RSA report filings for the period ended March 31 of each year, [PNG] shall report to ORS the employees whose incentive pay has been capitalized and included in rate base and the amount thereof."